



Recycling Resources for a Greener Planet

March 21, 2016

CalRecycle
1001 I Street
Sacramento CA 95812
Attention: Fareed Faridoon

Re: Revised draft CARE California Carpet Stewardship Plan 2017-2021

To the CalRecycle carpet team and Carpet America Recovery Effort (CARE):

The following is provided both as a representative of XT Green but also as a member of the California Council on Carpet Recycling since March of 2016.

XT Green submitted detailed comments on November 14, 2016 regarding the first draft of the 2017 CARE Carpet Stewardship 5-year Plan. Many of the concerns and ideas for consideration included in our earlier comments still apply.

The following focuses on our concerns regarding the program subsidies. This is extremely applicable to our situation as we are in the process of building a new “Advanced Manufacturing Facility” for the recovery and recycling of resources from post-consumer nylon residential and commercial carpet. Attachment 1 provides details regarding our new 120,620 square foot facility in Rancho Cucamonga California that will be completed in the Fall of 2017.

Attachment 2 provides additional information on the new XT Green facility. It is an excerpt from the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) report that resulted in the approval of the XT Green facility as an “Advanced Manufacture” due to the advancements made by our patent-pending technology including significantly increased environmental benefits.

XT Green developed its new process through 4 years of technology development and testing. When our first line is completed this fall in our Rancho Cucamonga facility, XT Green will have committed over \$10 million to bringing additional carpet recycling infrastructure to California. Except for a \$250,000 infrastructure grant from the California Carpet Stewardship Program and a \$750,000 tax exemption from CAEATFA, XT Green self-funded the new facility.

Uncertainty of the subsidy program

Based on the current Plan and the revised 2017 Plan, as a Tier 1 processor XT Green would receive subsidies for producing, selling and shipping the following recycled output --

1. 10 cents per pound for Type 1 material (nylon and polypropylene pellets)
2. 17 cents per pound for Calcium Carbonate recycled output

As we will be purchasing sorted post-consumer carpet (PCC) raw material, we will also benefit from the current 2 cents per pound paid to collector/sorters. Our initial focus will be on processing nylon PCC, therefore manufacturers using our recycled output will not qualify for a manufacturer subsidy. Note: We have overcome this by producing very high quality material and therefore have increased the value such that no nylon manufacturer subsidies are needed.

Because no manufacturing subsidy is needed for nylon carpet, it requires significantly less subsidies per pound of recycled output when compared to PET carpet which requires an additional \$.25 per pound for a manufacturing subsidy due to the lower recyclability of PET.

XT Green has developed markets for both its Nylon 6,6 and Nylon 6 recycled output and expect that its facility will make a major contribution to solving the current lack of markets for nylon PCC in California. However, this is dependent on the continuation of the processing subsidies.

Per the existing revised Plan:

1. Producers were notified in September 2016 that the subsidies may be changed in October 2017. However, the amount of the change or by what criteria these changes will be determined were not included in the notification.
2. Even if the subsidies are not changed, they would only be guaranteed for 1 year.
3. All the decisions regarding the subsidies (that are generated by the purchase of California carpet by California consumers) are made by the following:
 - CARE Sustainable Plan Committee (determines subsidy structure)
 - Georgia-based Carpet Mills – 4 representatives
 - Chairman of the Georgia-based Carpet and Rug Institute
 - California Representation – 1 Carpet Recycling Entrepreneur
 - CARE Sustainable Funding Oversight Committee (funding approval)
 - Georgia-based Carpet Mills -- 4 Presidents/CEOs
 - Chairman of the Georgia-based Carpet and Rug Institute
 - California Representation – 1 Carpet Recycling Entrepreneur (same person as SPC)

The above creates a very difficult situation for XT Green and others interested in investing in expanding the carpet recycling infrastructure in California. There has been an effort to increase California participation by the creation of the California Council on Carpet Recycling. However, to date, input from the Council has been very limited including not allowing the review of either the original or revised CARE 5-year plan prior to submittal to CalRecycle (even though that was a one of primary purposes for the creation of the Council).

XT Green understands that even with increases in the assessment fee (see discussion regarding alternative assessment fee strategies in XT Green November 14, 2016 comments), that there will always be a limitation to the total amount available for subsidies. Therefore, the subsidies need to be optimized to ensure the best return regarding the amount of recycled output generated per cost of the subsidy, e.g. a priority should be given to nylon as it requires less subsidies vs. PET. Although PET recycling is also needed to have a viable program.

The subsidies should also be used to drive the program toward defined goals. For example, the revised plan includes a goal of increasing “yields” i.e. pounds of recycled output per pound of PCC processed. However, there are no incentives provided to reach this goal. The revised plan also presents a “Catch 22” situation for supporting the expansion of California carpet recycling infrastructure but gives no advantages to new California facilities who must compete with existing out-of-state facility for California PCC -- facilities that have less stringent environmental requirements, lower costs than operating in California and don’t create California jobs. Additionally, it’s counterproductive to the environmental goals of the program if most of the subsidies paid to out-of-state processor are spent for transporting the PCC across the U.S.

Based on the above, XT Green requests that CARE increased transparency and stability in the management of the subsidy programs through:

1. Working with the California Council on Carpet Recycling and CalRecycle to develop transparent, goal-driven criteria for the development of subsidies.
2. Limiting the reductions in subsidies to a maximum annual percentage decrease.
3. Locking in a minimum 2 cents per pound subsidy for collector/sorters.
4. Increasing the California representation on the CARE SPC and SFOC Committees.
5. Requiring the notification of subsidy changes to include the proposed changes.
6. Retroactively cancelling the September 2016 notification and October 2017 changes due to the lack of notification of proposed changes.
7. Increasing the subsidy guarantee from 1 to 2 years.
8. Providing additional subsidies to California facilities to expand the California carpet recycling infrastructure.
9. Exploring an alternative assessment fee structure that increases available funding while not impacting the market share of lower priced carpet material.

California has lost two major carpet recycling facilities and countless independent carpet collector/sorters since the creation of the California Carpet Stewardship Program. Subsidies need to be provided that not only support the expansion of the California carpet recycling infrastructure but also support the long-term viability of these companies.

Thank you for your consideration. Regards –

Gail Brice

Senior Vice President of Corporate Development
562-592-5989 (direct office) 562-448-4254
gail.brice@xt-green.com



Attachment 1

XT Green Advanced Manufacturing Facility

**11600 Millennium Court
Rancho Cucamonga CA**

XT Green has leased the 120,620 square foot building described in the attached brochure. The company is in the process of constructing an “Advance Manufacturing Facility” that will recover and recycle resources reclaimed from post-consumer carpet. The facility’s first line will have the capacity to:

- 1. Process over 40 million pounds of residential and commercial broadloom nylon carpet a year;**
- 2. Annually generate the following amounts of recycled output:**
 - a) Highest quality Nylon 6 and Nylon 6,6 Pellets – Over 20 million pounds**
 - b) Highest quality Polypropylene Pellets – Over 5 million pounds**
 - c) Enhanced calcium carbonate – Over 15 million pounds**
 - Due to high quality of products XT Green has developed own markets for recycled output and secured Letters of Intent from future buyers**
 - Patent-pending process has been certified as an “Advanced Manufacturing” technology by the State of California due to advancement in technology and increased environmental benefits (see Attachment 2). This includes –**
 - Eliminating airborne particulate issues in the workplace and the emission to the environment**
 - Annual greenhouse gas reduction benefits will be the equivalent to the carbon sequestered for 10 years by planting 2.5 million trees**
 -
- 3. A second line at the Rancho Cucamonga facility is planned for Q 2 2018**

FOR LEASE

±120,620 SF

RANCHO CUCAMONGA DISTRIBUTION CENTER #4
11600 MILLENIUM COURT

Rancho Cucamonga, CA



BUILDING FEATURES

- + ±31,940 SF two-story office space
- + 30' clear height
- + ESFR sprinkler system
- + 11 dock high loading doors
- + 1 ground level door
- + T-5 warehouse lighting
- + 124.5' secured concrete truck court
- + Front and side loading
- + 60' x 52' typical bay spacing
- + 4,000 Amp electrical power
- + 178 auto parking spaces
- + 11 trailer parking spaces



CONTACT US

LEN SANTORO

Senior Vice President
+1 909 418 2158
len.santoro@cbre.com
Lic. 00758706

DAVID CONSANI

Executive Vice President
+1 909 418 2005
david.consani@cbre.com
Lic. 00866234

JIM KOENIG

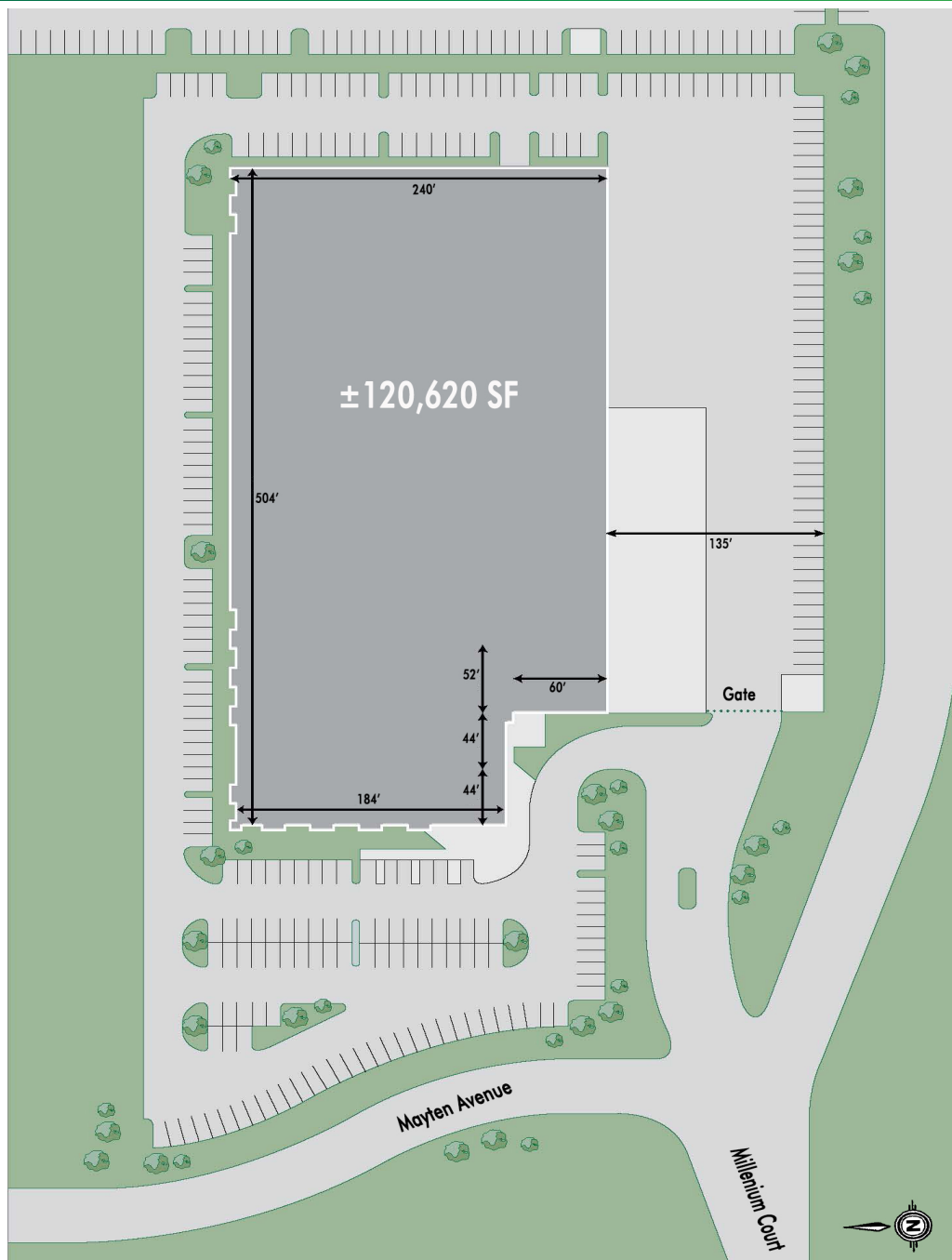
Senior Vice President
+1 909 418 2008
jim.koenig@cbre.com
Lic. 00905257

www.cbre.com

CBRE

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±120,620 SF

11600 MILLENIUM COURT
Rancho Cucamonga, CA



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Attachment 2

XT Green Advanced Manufacturer Designation

The following is an excerpt from the staff report of the California Alternative Energy Advanced Financing Authority (CAEATFA) for the approval of the XT Green Facility for Recycling of Resources from Post-Consumer Carpet as an “Advanced Manufacture” and a Sales and Use Tax Exclusion (STE) valued at over \$750,000 for the facility construction.

SUMMARY

Applicant – XT Green, Inc.

Location – Riverside or San Bernardino County

Project – Construction of an advanced manufacturing facility to recover resources from post-consumer carpet.

Note: Scores to qualify: Environmental Benefits – 20 points (XT Green Score = 110 points),
Total Score – 100 points (XT Green Score = 3194 points)

Application Score –

Fiscal Benefits Points:	2,993
<u>Environmental Benefits Points:</u>	<u>110</u>
Net Benefits Score:	3,103
 <u>Additional Benefits Points:</u>	 <u>91</u>
Total Score:	3,194

Staff Recommendation – Approval

THE APPLICANT/PROJECT

XT Green was founded in 2013 for the purpose of developing an alternative system to recover the resources from post-consumer carpet to manufacture products such as reclaimed nylon and polypropylene to replace virgin materials. Carpet recycling has historically had limited success in the United States due to current technologies that produce poor quality recycled material, low yields, large amounts of waste, and air-pollution-related employee health problems.

XT Green has developed a new patent-pending advanced manufacturing processing system that resolves these issues. The innovative technology was demonstrated through pilot testing in 2015, and XT Green is currently planning to bring the new system to scale in its first facility for recovering resources from carpet and manufacturing them into pellets.

XT Green's new advanced resource recovery and manufacturing (the "Project"), will be located in Southern California. Opening is planned for Q3 2017. The facility will process approximately 4 million pounds of post-consumer carpet per month and produce recycled raw materials (see Figure 1).

Currently, only 10% of the post-consumer carpet that is discarded in California is being recycled due to economic and technological limitations. XT Green overcomes these limitations through its new advanced technology utilizing a new wet process the produces higher quality reclaimed material than the current industry standard.

Figure 1: XT Green Carpet Recycling Output

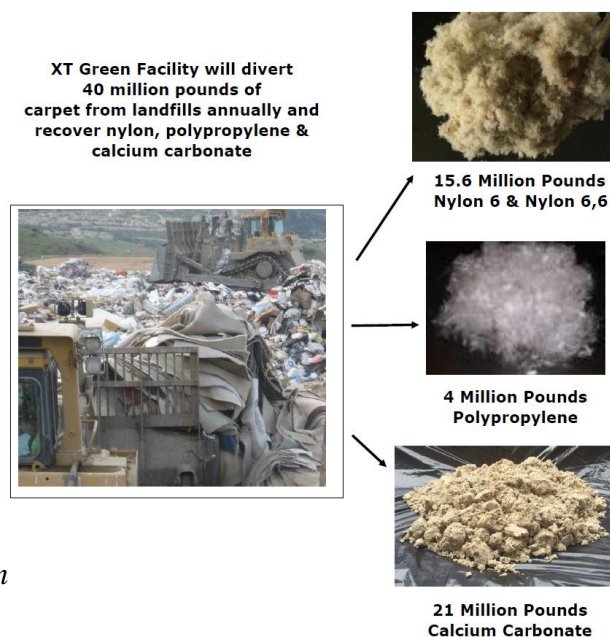
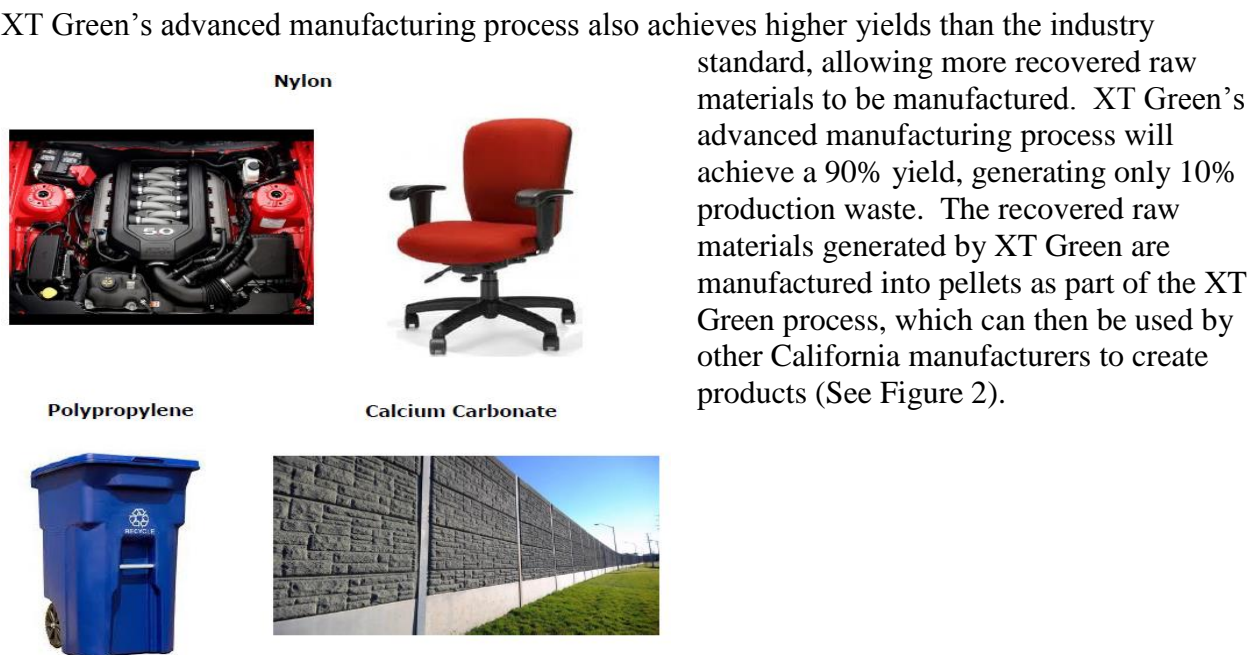


Figure 2: Example Products Made From XT Green Recovered Raw Materials



standard, allowing more recovered raw materials to be manufactured. XT Green's advanced manufacturing process will achieve a 90% yield, generating only 10% production waste. The recovered raw materials generated by XT Green are manufactured into pellets as part of the XT Green process, which can then be used by other California manufacturers to create products (See Figure 2).

PROJECT EVALUATION

Project Environmental Benefits Score of 110 points, which exceeds the 20 point threshold.

A. Environmental Benefits (110 points).

1. **Environmental Sustainability Plan (20 of 20 points).** The Applicant will implement an environmental sustainability for its Project that it represents will result in significantly reduced air pollution, protected employee health, minimized waste generation, and reduced energy requirements.
2. **Energy Consumption (30 of 30 points).** The manufacturing process will result in a 65% reduction in energy consumption relative to the industry standard manufacturing process.
3. **Solid Waste (30 of 30 points).** The manufacturing process will result in an 83% reduction in solid waste produced relative to the industry standard manufacturing process.
4. **Air Pollutants (30 of 30 points).** The manufacturing process will result in a 100% reduction in air pollutants produced relative to the industry standard manufacturing process.

B. Additional Benefits (91 points). Applicants may earn additional points for their Total Score. The applicant submitted information and received 91 additional points.

1. **Permanent Jobs (45 of 75 points).** The Project will support a total of 60 permanent jobs at its Facility.
2. **Construction Jobs (30 of 75 points).** The construction of the facility will support a total of 24 construction jobs at its Facility.
3. **Unemployment (16 of 50 points).** The Applicant's Project is located in Riverside County which has an average annual unemployment rate of 9%. This is above 110% of the statewide average annual unemployment rate which was 7.5% in 2014, the dataset used in the application.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that they have submitted or plan to submit South Coast Air Quality Management District, CalRecycle Solid Waste Management, and Sewer Discharge permit applications. XT Green represents that their staff are experienced in securing necessary permits and approvals and do not anticipate any issues.

RECOMMENDATION --

Staff recommends approval of Resolution No. 16-SM026 for an exclusion of sales and use tax XT Green's purchase of equipment for the XT Green facility.